

Cesar Chavez Academy

Financial Report
with Supplemental Information
June 30, 2008

Cesar Chavez Academy

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Independent Auditor's Report

To the Board of Directors
Cesar Chavez Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cesar Chavez Academy as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Cesar Chavez Academy's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cesar Chavez Academy as of June 30, 2008 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Directors
Cesar Chavez Academy

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cesar Chavez Academy's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated October 15, 2008 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 15, 2008

Cesar Chavez Academy

Management's Discussion and Analysis

This section of Cesar Chavez Academy's annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2008. Please read it in conjunction with the Academy's basic financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Cesar Chavez Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant funds - the General Fund and Debt Service Fund - with all other funds presented in one column as nonmajor funds.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Cesar Chavez Academy

Management's Discussion and Analysis (Continued)

Reporting the Academy as a Whole - Academy-wide Financial Statements (Continued)

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, athletics, and food services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by state law and by debt covenants. However, the Academy establishes many other funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using grants and other money. The governmental funds of the Academy use the following accounting approach:

Governmental Funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The Academy as Trustee - Reporting the School District's Fiduciary Responsibilities

The Academy is the trustee, or fiduciary, for its student activity funds. All of the Academy's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Academy's other financial statements because the Academy cannot use these assets to finance its operations. The Academy is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Cesar Chavez Academy

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net assets as of June 30, 2008 and 2007.

TABLE I

	Governmental Activities	
	June 30	
	2008	2007
Assets		
Current and other assets	\$ 5,886,780	\$ 5,672,964
Prepaid other assets - Net	937,828	997,792
Capital assets	<u>11,888,768</u>	<u>12,244,737</u>
Total assets	18,713,376	18,915,493
Liabilities		
Current liabilities	2,529,819	2,180,499
Long-term liabilities	<u>15,435,000</u>	<u>15,660,000</u>
Total liabilities	<u>17,964,819</u>	<u>17,840,499</u>
Net Assets		
Invested in capital assets - Net of related debt	(894,481)	(801,086)
Unrestricted	<u>1,643,038</u>	<u>1,876,080</u>
Total net assets	<u>\$ 748,557</u>	<u>\$ 1,074,994</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were \$748,557 at June 30, 2008. Capital assets, net of related debt, totaling a deficit of (\$894,481), compare the original cost, less depreciation of the Academy's capital assets and unspent debt proceeds, to long-term debt used to finance the acquisition of those assets. The debt will be repaid from General Fund revenue and Debt Service Fund cash and investments as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$1,643,038) was unrestricted.

Cesar Chavez Academy

Management's Discussion and Analysis (Continued)

The \$1,643,038 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2008 and 2007.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2008	2007
Revenue		
Program revenue:		
Charges for services	\$ 15,339	\$ 22,433
Federal grants and entitlements	1,802,240	2,117,872
State categoricals	733,375	992,446
Operating grants	106,319	79,202
General revenue:		
State foundation allowance	10,703,527	10,187,869
Other	151,152	117,856
Total revenue	13,511,952	13,517,678
Functions/Program Expenses		
Instruction	6,049,326	5,341,370
Support services	5,270,597	5,264,553
Food services	621,565	602,185
Athletics	75,456	97,750
Community services	29,586	31,172
Intergovernmental transfers	90,662	330,751
Other	12,077	-
Interest on long-term debt	1,132,533	1,145,888
Depreciation and amortization (unallocated)	556,587	538,661
Total functions/program expenses	13,838,389	13,352,330
(Decrease) Increase in Net Assets	\$ (326,437)	\$ 165,348

Cesar Chavez Academy

Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$13,838,389. Certain activities were partially funded from those who benefited from the programs (\$15,339) or by other governmental agencies and organizations that subsidized certain programs with grants and contributions (\$2,641,934). We paid for the remaining "public benefit" portion of our governmental activities with \$10,703,527 in state foundation allowance and with our other revenues, i.e., interest and general entitlements.

The Academy experienced a decrease in net assets of \$326,437. The key reason for the change in net assets was a significant increase in instructional expenses without a corresponding increase in revenue. Section 31a revenue deferral was instrumental in less revenue being recorded.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy operating revenue sources, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$3,961,972, which is a decrease of \$259,573 from last year. The primary reason for the decrease was the Academy's inability to control expenditures given the amount of revenue recorded, which was about the same as the previous year.

In the General Fund, our principal operating fund, the fund balance decreased \$321,781 to \$1,554,299. The change is mainly due to inability to control expenditures.

The General Fund fund balance is available to fund costs related to allowable school operating purposes.

The Debt Service Fund showed a fund balance increase of \$85,336 to \$2,407,502. The Debt Service Fund fund balance is reserved since it can only be used to pay debt service obligations.

The Capital Projects Fund fund balance decreased \$23,128 to \$171 due to capital projects activity nearing completion.

Cesar Chavez Academy

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were revisions made to the 2007-2008 General Fund original budget. Budgeted revenues were increased \$211,808 due to increased federal grant revenue.

Budgeted expenditures were decreased \$32,235 to account for various changes in salaries and purchased professional services resulting from the Academy's revised operating plan. The amount of transfers to other funds established in the amended budget was \$1,642,043 and represents support provided by the General Fund to other functions.

Significant variances between the final budget and actual amounts are disclosed in the notes to the financial statements.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the Academy had \$12,826,596 invested in a broad range of capital assets, including land, buildings and building improvements, site improvements, transportation equipment, furniture, equipment, and capitalized full-term certificates of participation (FTCP) issuance costs. This amount represents a net decrease (including additions, disposals, depreciation, and amortization) of approximately \$416,000, or 3 percent, from last year.

	2008	2007
Land	\$ 386,648	\$ 386,648
Buildings and building improvements	10,593,089	10,867,183
Site improvements	438,415	460,542
Transportation equipment	67,873	79,192
Furniture and equipment	402,743	451,172
Capitalized certificates of participation issuance cost	937,828	997,792
Total capital assets	<u>\$ 12,826,596</u>	<u>\$ 13,242,529</u>

Cesar Chavez Academy

Management's Discussion and Analysis (Continued)

This year's additions of \$140,654 included existing building renovations, site improvements, and equipment. No new debt was issued for these additions.

In fiscal year 2008-2009, we anticipate capital additions will be less than the 2007-2008 fiscal year. We present more detailed information about our capital assets and purchase commitments in the notes to the financial statements.

Debt

At the end of this year, the Academy had \$15,660,000 in full-term certificates of participation outstanding. We present more detailed information about long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our administration considers many factors when setting the Academy's 2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2009 budget was adopted in May 2008, based on an estimate of students who will be enrolled in September 2008. Approximately 83 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2009 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2009 budget. Once the final student count and related per pupil funding is validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent revenue-estimating conference, the State estimates funds will be sufficient to fund the appropriation.

Cesar Chavez Academy

Statement of Net Assets June 30, 2008

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 3,321,336
Receivables	2,474,393
Prepaid costs	91,051
Prepaid other assets - Net (Note 6)	937,828
Capital assets - Net (Note 5)	<u>11,888,768</u>
Total assets	18,713,376
Liabilities	
Accounts payable	144,872
Due to fiduciary fund	23,160
Accrued payroll and other liabilities (Note 7)	1,631,770
State aid anticipation note (Note 12)	180,909
Deferred revenue (Note 4)	324,108
Long-term liabilities (Note 8):	
Due within one year	225,000
Due in more than one year	<u>15,435,000</u>
Total liabilities	<u>17,964,819</u>
Net Assets	
Investment in capital assets - Net of related debt	(894,481)
Unrestricted	<u>1,643,038</u>
Total net assets	<u><u>\$ 748,557</u></u>

Cesar Chavez Academy

Statement of Activities Year Ended June 30, 2008

	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 6,049,326	\$ -	\$ 1,381,577	\$ (4,667,749)
Support services	5,270,597	-	754,649	(4,515,948)
Food services	621,565	15,239	505,708	(100,618)
Athletics	75,456	100	-	(75,356)
Community services	29,586	-	-	(29,586)
Intergovernmental transfers	90,662	-	-	(90,662)
Other	12,077	-	-	(12,077)
Interest on long-term debt	1,132,533	-	-	(1,132,533)
Depreciation and amortization (unallocated)	556,587	-	-	(556,587)
Total governmental activities	<u>\$ 13,838,389</u>	<u>\$ 15,339</u>	<u>\$ 2,641,934</u>	(11,181,116)
General revenues:				
State aid not restricted to specific purposes				10,703,527
Interest and investment earnings				100,005
Other				<u>51,147</u>
Total general revenues				<u>10,854,679</u>
Change in Net Assets				(326,437)
Net Assets - Beginning of year				<u>1,074,994</u>
Net Assets - End of year				<u>\$ 748,557</u>

Cesar Chavez Academy

Governmental Funds Balance Sheet June 30, 2008

	General Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 913,663	\$ 2,407,502	\$ 171	\$ 3,321,336
Receivables	2,474,393	-	-	2,474,393
Prepaid costs	91,051	-	-	91,051
Total assets	<u>\$ 3,479,107</u>	<u>\$ 2,407,502</u>	<u>\$ 171</u>	<u>\$ 5,886,780</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 144,872	\$ -	\$ -	\$ 144,872
Accrued payroll and other liabilities (Note 7)	1,163,020	-	-	1,163,020
State aid anticipation note (Note 12)	180,909	-	-	180,909
Due to other funds	23,160	-	-	23,160
Deferred revenue (Note 4)	412,847	-	-	412,847
Total liabilities	1,924,808	-	-	1,924,808
Fund Balances				
Reserved for:				
Capital projects	-	-	171	171
Debt service	-	2,407,502	-	2,407,502
Prepaid costs	91,051	-	-	91,051
Unreserved - Undesignated - Reported in General Fund	<u>1,463,248</u>	<u>-</u>	<u>-</u>	<u>1,463,248</u>
Total fund balances	<u>1,554,299</u>	<u>2,407,502</u>	<u>171</u>	<u>3,961,972</u>
Total liabilities and fund balances	<u>\$ 3,479,107</u>	<u>\$ 2,407,502</u>	<u>\$ 171</u>	<u>\$ 5,886,780</u>

Cesar Chavez Academy

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2008

Fund Balance - Total governmental funds \$ 3,961,972

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are
not financial resources and are not reported
in the governmental funds:

Cost of capital assets	\$ 15,280,944	
Accumulated depreciation/amortization	<u>(2,454,348)</u>	12,826,596

Other long-term assets not available to pay
current period expenditures are therefore
deferred in the governmental funds
(Note: GASB No. 33) 88,739

Long-term liabilities are not due and payable
in the current period and are not reported
in the governmental funds - Certificates
of participation payable (15,660,000)

Accrued interest is not included as a liability in
governmental funds (468,750)

Net Assets - Governmental activities \$ 748,557

Cesar Chavez Academy

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Local sources	\$ 72,841	\$ 77,896	\$ 15,754	\$ 166,491
State sources	11,417,629	-	19,273	11,436,902
Federal sources	1,315,805	-	486,435	1,802,240
Intermediate sources	17,580	-	-	17,580
Total revenue	12,823,855	77,896	521,462	13,423,213
Expenditures				
Current:				
Instruction	6,085,741	-	-	6,085,741
Support services	5,330,679	5,163	6,991	5,342,833
Community services	29,586	-	-	29,586
Food services	-	-	621,565	621,565
Athletics	-	-	75,456	75,456
Debt service:				
Principal	44,997	210,000	-	254,997
Interest	66	1,137,800	-	1,137,866
Facility acquisitions	19,703	-	12,300	32,003
Intergovernmental transfers (Note 14)	90,662	-	-	90,662
Other	12,077	-	-	12,077
Total expenditures	11,613,511	1,352,963	716,312	13,682,786
Excess of Revenue Over (Under)				
Expenditures	1,210,344	(1,275,067)	(194,850)	(259,573)
Other Financing Sources (Uses)				
Transfers in	-	1,360,403	175,974	1,536,377
Transfers out	(1,532,125)	-	(4,252)	(1,536,377)
Total other financing sources (uses)	(1,532,125)	1,360,403	171,722	-
Net Change in Fund Balances	(321,781)	85,336	(23,128)	(259,573)
Fund Balances - Beginning of year	1,876,080	2,322,166	23,299	4,221,545
Fund Balances - End of year	\$ 1,554,299	\$ 2,407,502	\$ 171	\$ 3,961,972

Cesar Chavez Academy

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total governmental funds \$ (259,573)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures;
in the statement of activities, these costs are allocated over
their estimated useful lives as depreciation or amortization:

Depreciation and amortization expense	\$ (556,587)	
Capitalized capital outlay	<u>140,654</u>	(415,933)

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	88,739
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Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	5,333
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Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<u>254,997</u>
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Change in Net Assets of Governmental Activities **\$ (326,437)**

Cesar Chavez Academy

Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2008

	Student Activities Agency Fund
	<hr/>
Assets - Due from other funds	\$ 23,160
Liabilities - Due to student groups	\$ 23,160

Note I - Summary of Significant Accounting Policies

The accounting policies of Cesar Chavez Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On July 25, 1996, the Academy entered into a three-year contract with the Saginaw Valley State University Board of Control to charter a public school academy, which was subsequently extended through June 30, 2011. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Saginaw Valley State University Board of Control is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Control 3 percent of the state foundation allowance as administrative fees. The total administrative fees for the year ended June 30, 2008, to the Saginaw Valley State University Board of Control, was approximately \$321,000.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of the criteria, the entity does not contain component units.

Academy-wide and Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and the fiduciary fund, even though the latter is excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-wide Financial Statements - The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Note I - Summary of Significant Accounting Policies (Continued)

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

The Academy reports the following major governmental funds:

The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The Debt Service Fund is used to record transfers from the General Fund and interest revenue and the payments of interest, principal, and other expenditures on long-term debt.

Additionally, the Academy reports the following fund types:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's Special Revenue Funds include the Food Services and Athletics Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

The Capital Projects Fund is used to record long-term debt proceeds or other revenue and disbursements of monies specifically designed for acquiring new school sites, buildings, equipment, and for major remodeling. The fund is retained until the purpose for which the fund was created has been accomplished.

The Student Activities Agency Fund is used to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds."

Note I - Summary of Significant Accounting Policies (Continued)

All receivables, primarily intergovernmental receivables, are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Prepaid Costs - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Academy-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings and building additions, site improvements, transportation equipment, furniture, equipment, and capitalized certificates of participation issuance costs are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	9-39 years
Site improvements	1-15 years
Transportation equipment	8 years
Furniture and equipment	3-15 years
Capitalized certificates of participation issuance costs	30 years

Long-term Obligations - In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Full-term certificates of participation premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the certificates of participation using the effective interest method. Long-term debt payable is reported net of the applicable premium or discount. Long-term debt issuance costs are reported as capitalized certificates of participation issuance costs and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize long-term debt premiums and discounts, as well as long-term debt issuance costs, during the current period.

Note 1 - Summary of Significant Accounting Policies (Continued)

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the Academy's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy adjusted budgeted amounts during the year in response to actual and projected activity.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services received.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Academy did not have significant expenditure budget variances.

Note 3 - Deposits and Investments

State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan.

Note 3 - Deposits and Investments (Continued)

The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

The Academy has designated two banks for the deposits of its funds.

The Academy's deposits consist solely of checking and/or savings accounts at local banks, money market funds invested in U.S. Treasury obligations, and U.S. government agency notes. The Academy has not adopted a formal investment policy. The Academy's cash and investments are subject to several types of risk, which are examined in more detail below.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year end, the Academy's deposit balance of \$1,029,154 had \$929,154 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Academy limits interest rate risk by investing in only U.S. Treasury obligations and U.S. government agency notes.

Note 3 - Deposits and Investments (Continued)**Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. At year end, the maturities of investments and the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
Bank investment pool	\$ 1,514,673	19 days	Aaa	Moody's
U.S. government agency note	<u>893,000</u>	6 months	Not Required	Not Required
Total investments	<u>\$ 2,407,673</u>			

Concentration of Credit Risk

The Academy places no limit on the amount it may invest in any one issuer.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Deferred revenue	<u>\$ 88,739</u>	<u>\$ 324,108</u>

Cesar Chavez Academy

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets

Capital asset activity of the Academy's governmental activities is as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Capital assets not being depreciated -				
Land	\$ 386,648	\$ -	\$ -	\$ 386,648
Capital assets being depreciated:				
Building and building improvements	11,824,310	22,203	-	11,846,513
Site improvements	630,745	17,052	-	647,797
Transportation equipment	90,550	-	-	90,550
Furniture and equipment	1,049,010	101,399	(299)	1,150,110
Total	13,594,615	140,654	(299)	13,734,970
Accumulated depreciation:				
Building and building improvements	957,127	296,297	-	1,253,424
Site improvements	170,203	39,179	-	209,382
Transportation equipment	11,358	11,319	-	22,677
Furniture and equipment	597,838	149,828	(299)	747,367
Total	1,736,526	496,623	(299)	2,232,850
Net capital assets being depreciated	11,858,089	(355,969)	-	11,502,120
Net capital assets	<u>\$ 12,244,737</u>	<u>\$ (355,969)</u>	<u>\$ -</u>	<u>\$ 11,888,768</u>

Depreciation and amortization expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

Cesar Chavez Academy

Notes to Financial Statements June 30, 2008

Note 6 - Prepaid Other Assets

Prepaid other asset activity of the Academy's governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Other assets:				
Certificates of participation issuance cost	\$ 1,159,326	\$ -	\$ -	\$ 1,159,326
Accumulated amortization	<u>161,534</u>	<u>59,964</u>	<u>-</u>	<u>221,498</u>
Net amortizable assets	<u>\$ 997,792</u>	<u>\$ (59,964)</u>	<u>\$ -</u>	<u>\$ 937,828</u>
Net governmental capital assets	<u>\$ 13,242,529</u>	<u>\$ (415,933)</u>	<u>\$ -</u>	<u>\$ 12,826,596</u>

Note 7 - Management Company

The Academy entered into a management agreement effective through June 30, 2009, which has been extended to June 30, 2011, for a fixed fee of \$825,000 plus a variable fee equal to 4 percent of the state school aid that the Academy receives for the increase in students enrolled at the Academy above 1,145, the official enrollment for 2004 (base year). The management company is responsible for all of the management, operation, administration, and education of the Academy. The Academy subcontracts all employees from the management company and reimburses the management company for operating costs.

The Academy incurred management fees totaling \$928,125 for the year ended June 30, 2008. At June 30, 2008, accrued expenses include \$175,783 for payment of management fees and approximately \$928,000 for reimbursement of subcontracted employees and other operating costs.

For the year ended June 30, 2008, federal grant expenditures include \$88,276 paid to the management company for services including testing, assessment, curriculum, technical support, professional development, student support, school improvement, parental involvement activities, project supervision, grant administration, and reimbursement for indirect costs.

Cesar Chavez Academy

Notes to Financial Statements June 30, 2008

Note 8 - Long-term Debt

The Academy issues full-term certificates of participation (FTCP) and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. FTCP are direct obligations and the Academy has pledged no more than 20 percent of state foundation revenue received in each fiscal year to repay the certificates of participation. During the year, state foundation allowance revenue received was \$10,703,527 and debt service was \$1,347,800.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
FTCP	\$ 15,870,000	\$ -	\$ 210,000	\$ 15,660,000	\$ 225,000
Capital leases	44,997	-	44,997	-	-
Total governmental activities	<u>\$ 15,914,997</u>	<u>\$ -</u>	<u>\$ 254,997</u>	<u>\$ 15,660,000</u>	<u>\$ 225,000</u>

Annual debt service requirements to maturity for the above full-term certificates of participation are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 225,000	\$ 1,125,000	\$ 1,350,000
2010	240,000	1,111,275	1,351,275
2011	255,000	1,096,625	1,351,625
2012	270,000	1,081,050	1,351,050
2013	290,000	1,064,550	1,354,550
2014-2018	1,750,000	5,020,475	6,770,475
2019-2023	2,480,000	4,323,400	6,803,400
2024-2028	3,570,000	3,278,675	6,848,675
2029-2033	<u>6,580,000</u>	<u>1,732,850</u>	<u>8,312,850</u>
Total	<u>\$ 15,660,000</u>	<u>\$ 19,833,900</u>	<u>\$ 35,493,900</u>

Note 8 - Long-term Debt (Continued)**Governmental Activities**

Full-term certificates of participation consist of the following:

\$840,000 FTCP, due in annual installments of \$90,000 to \$130,000 through 2015, interest at 5.50 percent	\$ 755,000
\$1,020,000 FTCP, due in annual installments of \$135,000 to \$175,000 through 2013, interest at 6.50 percent	775,000
\$1,065,000 FTCP, due in annual installments of \$185,000 to \$245,000 beginning in 2014 through 2018, interest at 7.00 percent	1,065,000
\$1,505,000 FTCP, due in annual installments of \$260,000 to \$345,000 beginning in 2019 through 2023, interest at 7.50 percent	1,505,000
\$5,275,000 FTCP, due in annual installments of \$135,000 to \$970,000 beginning in 2016 through 2033, interest at 6.50 percent	5,275,000
\$6,285,000 FTCP, due in annual installments of \$375,000 to \$1,625,000 beginning in 2024 through 2033, interest at 8.00 percent	<u>6,285,000</u>
Total obligation	<u>\$ 15,660,000</u>

During the year ended June 30, 2006, the Academy received an investment grade rating from Standard and Poor's on its 2005 series full-term certificates of participation. As a result, the interest rates and related future interest payment commitments were reduced. The above FTCP schedules and the statement of full-term certificates of participation indebtedness included in the other supplemental information section have been adjusted to reflect these changes. Accrued interest at June 30, 2008 totaled \$468,750.

Capital Leases - The Academy has entered into a lease agreement as lessee for financing the purchase of modular buildings. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease obligations were paid in full as of June 30, 2008.

Total cost of the assets under the capital lease is \$204,160, with accumulated depreciation of \$69,196, for a net book value of \$134,964 at June 30, 2008.

Cesar Chavez Academy

Notes to Financial Statements June 30, 2008

Note 9 - Interfund Transfers

	Transfers Out		
	General	Capital	
	Fund	Projects Fund	Total
Transfers in:			
Debt Service Fund	\$ 1,356,151	\$ 4,252	\$ 1,360,403
Nonmajor Governmental Funds	<u>175,974</u>	<u>-</u>	<u>175,974</u>
Total	<u>\$ 1,532,125</u>	<u>\$ 4,252</u>	<u>\$ 1,536,377</u>

Transfers provided funding for debt service and subsidized operations in the Food Services and Athletics Funds.

Note 10 - Lease Agreements

The Academy entered into a lease agreement for use of its elementary school building through June 30, 2015. Under the lease, the Academy is responsible for insurance, repairs, and maintenance related to the facility. In addition, the Academy is responsible for the payment of 90 percent of the cost of utilities including gas, electric, and heating services. Minimum annual payments required under the lease are \$340,200 per year.

Minimum annual payments are subject to increases each year over the base year (defined as the 2005-2006 academic year) at the same rate as the State of Michigan Department of Education per pupil foundation allowance for the Academy. The Academy incurred rent expense in connection with the lease of \$340,200 for the year ended June 30, 2008.

Note 11 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company is covered by insurance held by the management company (see Note 7). The Academy has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of the insurance coverage since inception.

Note 12 - State Aid Anticipation Note

During the fiscal year, the Academy borrowed \$995,000 in a state aid anticipation note. The note bore interest at a variable annual interest rate equal to 75 percent of the prime rate, adjusted monthly (3.75 percent at June 30, 2008), and was paid in full on August 29, 2008.

Note 13 - Subsequent Events

Subsequent to year end, the Academy borrowed \$1,400,000 at a variable annual interest rate equal to 75 percent of the prime rate, adjusted monthly, on a state aid anticipation note. The note, plus interest, is due on August 30, 2009.

Note 14 - Fiscal Agent

The Academy serves as fiscal agent for the Safe and Drug-free Schools - Community Service Grants federal grant. As a fiscal agent, the Academy is responsible for drawing down federal funds and passing the funds to its subrecipients when expenditures are incurred. The amount of grant funds received by Cesar Chavez Academy for the year ended June 30, 2008 was approximately \$101,000. Of this amount, approximately \$91,000 was passed to its subrecipients and approximately \$10,000 was expended by the Academy on its own federal programs.

Required Supplemental Information

Cesar Chavez Academy

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 9,150	\$ 59,726	\$ 72,841	\$ 13,115
State sources	11,821,530	12,198,018	11,417,629	(780,389)
Federal sources	1,973,191	1,745,899	1,315,805	(430,094)
Intermediate sources	5,544	17,580	17,580	-
Total revenue	13,809,415	14,021,223	12,823,855	(1,197,368)
Expenditures				
Current:				
Instruction:				
Basic programs	4,542,082	4,566,195	4,603,076	36,881
Added needs	1,360,454	1,814,424	1,482,665	(331,759)
Support services:				
Pupil	591,507	577,419	554,344	(23,075)
Instructional staff	940,273	974,583	829,964	(144,619)
General administration	881,752	798,506	780,900	(17,606)
School administration	1,286,593	1,180,246	1,117,496	(62,750)
Business services	317,428	352,271	309,315	(42,956)
Operation and maintenance	1,431,216	1,441,317	1,379,204	(62,113)
Pupil transportation services	63,581	73,282	61,910	(11,372)
Central	342,370	309,025	297,546	(11,479)
Community services	52,474	53,547	29,586	(23,961)
Debt service:				
Principal	48,908	50,408	44,997	(5,411)
Interest	-	-	66	66
Facilities acquisition	-	21,000	19,703	(1,297)
Intergovernmental transfers	488,559	90,662	90,662	-
Other	-	12,077	12,077	-
Total expenditures	12,347,197	12,314,962	11,613,511	(701,451)
Other Financing Uses - Transfer out	<u>(1,455,365)</u>	<u>(1,642,043)</u>	<u>(1,532,125)</u>	<u>109,918</u>
Net Change in Fund Balance	6,853	64,218	(321,781)	(385,999)
Fund Balance - July 1, 2007	<u>1,587,387</u>	<u>1,876,080</u>	<u>1,876,080</u>	<u>-</u>
Fund Balance - June 30, 2008	<u>\$ 1,594,240</u>	<u>\$ 1,940,298</u>	<u>\$ 1,554,299</u>	<u>\$ (385,999)</u>

Other Supplemental Information

Cesar Chavez Academy

Other Supplemental Information Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Capital Projects Fund	Special Revenue Funds		
		Food Services Fund	Athletics Fund	Total
Assets - Cash	\$ 171	\$ -	\$ -	\$ 171
Fund Balances - Reserved - Capital Projects Fund	\$ 171	\$ -	\$ -	\$ 171

Cesar Chavez Academy

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2008

	Capital Projects Fund	Special Revenue Funds Food Services Fund	Athletics Fund
Revenue			
Local sources	\$ 415	\$ 15,239	\$ 100
State sources	-	19,273	-
Federal sources	-	486,435	-
Total revenue	415	520,947	100
Expenditures - Current			
Support services	6,991	-	-
Food services	-	621,565	-
Athletics	-	-	75,456
Capital outlay	12,300	-	-
Total expenditures	19,291	621,565	75,456
Excess of Expenditures Over Revenue	(18,876)	(100,618)	(75,356)
Other Financing Sources (Uses)			
Transfers in	-	100,618	75,356
Transfers out	(4,252)	-	-
Total other financing sources (uses)	(4,252)	100,618	75,356
Net Change in Fund Balances (Uses)	(23,128)	-	-
Fund Balances - Beginning of year	23,299	-	-
Fund Balances - End of year	<u>\$ 171</u>	<u>\$ -</u>	<u>\$ -</u>

Cesar Chavez Academy

Other Supplemental Information Statement of Full-term Certificates of Participation Indebtedness Year Ended June 30, 2008

June 30	2005 Series Principal	2005 Series Principal	2003 Series Principal	2003 Series Principal	2003 Series Principal	2003 Series Principal
2009	\$ 90,000	\$ -	\$ 135,000	\$ -	\$ -	\$ -
2010	95,000	-	145,000	-	-	-
2011	100,000	-	155,000	-	-	-
2012	105,000	-	165,000	-	-	-
2013	115,000	-	175,000	-	-	-
2014	120,000	-	-	185,000	-	-
2015	130,000	-	-	200,000	-	-
2016	-	135,000	-	210,000	-	-
2017	-	145,000	-	225,000	-	-
2018	-	155,000	-	245,000	-	-
2019	-	170,000	-	-	260,000	-
2020	-	180,000	-	-	280,000	-
2021	-	195,000	-	-	300,000	-
2022	-	205,000	-	-	320,000	-
2023	-	225,000	-	-	345,000	-
2024	-	240,000	-	-	-	375,000
2025	-	255,000	-	-	-	405,000
2026	-	275,000	-	-	-	435,000
2027	-	295,000	-	-	-	470,000
2028	-	315,000	-	-	-	505,000
2029	-	340,000	-	-	-	550,000
2030	-	365,000	-	-	-	590,000
2031	-	390,000	-	-	-	640,000
2032	-	420,000	-	-	-	690,000
2033	-	970,000	-	-	-	1,625,000
Total	<u>\$ 755,000</u>	<u>\$ 5,275,000</u>	<u>\$ 775,000</u>	<u>\$ 1,065,000</u>	<u>\$ 1,505,000</u>	<u>\$ 6,285,000</u>
Principal payments due	Feb 1	Feb 1	Feb 1	Feb 1	Feb 1	Feb 1
Interest payments due	Feb 1/ Aug 1	Feb 1/ Aug 1	Feb 1/ Aug 1	Feb 1/ Aug 1	Feb 1/ Aug 1	Feb 1/ Aug 1
Interest rate	5.50%	6.50%	6.50%	7.00%	7.50%	8.00%
Original issue	<u>\$ 840,000</u>	<u>\$ 5,275,000</u>	<u>\$ 1,020,000</u>	<u>\$ 1,065,000</u>	<u>\$ 1,505,000</u>	<u>\$ 6,285,000</u>